

**DEPARTMENT OF THE TREASURY**

**Office of the Comptroller of the Currency**

**FEDERAL RESERVE SYSTEM**

**FEDERAL DEPOSIT INSURANCE CORPORATION**

**DEPARTMENT OF THE TREASURY**

**Office of Thrift Supervision**

**Proposed Agency Information Collection Activities; Comment Request**

**AGENCIES:** Office of the Comptroller of the Currency (OCC), Treasury; Board of Governors of the Federal Reserve System (Board); Federal Deposit Insurance Corporation (FDIC); and Office of Thrift Supervision (OTS), Treasury.

**ACTION:** Joint notice and request for comment.

**SUMMARY:** In accordance with the requirements of the Paperwork Reduction Act of 1995 (44 U.S.C. chapter 35), the OCC, the Board, the FDIC, and the OTS (the “agencies”) may not conduct or sponsor, and the respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The Federal Financial Institutions Examination Council (FFIEC), of which the agencies are members, has approved the agencies’ publication for public comment of a proposal to extend, with revision, the Consolidated Reports of Condition and Income (Call Report) for banks and the Thrift Financial Report (TFR) for savings associations, which are currently approved collections of information. At the end of the comment period, the comments and recommendations received will be analyzed to determine the extent to which the FFIEC and the agencies should modify the proposed

revisions prior to giving final approval. The agencies will then submit the revisions to OMB for review and approval.

**DATES:** Comments must be submitted on or before November 12, 2007.

**ADDRESSES:** Interested parties are invited to submit written comments to any or all of the agencies. All comments, which should refer to the OMB control number(s), will be shared among the agencies.

OCC: Communications Division, Office of the Comptroller of the Currency, Public Information Room, Mailstop 1-5, Attention: 1557-0081, 250 E Street, SW., Washington, DC 20219. In addition, comments may be sent by fax to (202) 874-4448, or by electronic mail to [regs.comments@occ.treas.gov](mailto:regs.comments@occ.treas.gov). You may personally inspect and photocopy the comments at the OCC's Public Information Room, 250 E Street, SW., Washington, DC 20219. For security reasons, the OCC requires that visitors make an appointment to inspect comments. You may do so by calling (202) 874-5043. Upon arrival, visitors will be required to present valid government-issued photo identification and submit to security screening in order to inspect and photocopy comments.

Board: You may submit comments, which should refer to "Consolidated Reports of Condition and Income, 7100-0036, March 2008" by any of the following methods:

- Agency Web Site: <http://www.federalreserve.gov>. Follow the instructions for submitting comments on the <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm>.
- Federal eRulemaking Portal: <http://www.regulations.gov>. Follow the instructions for submitting comments.

- E-mail: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov). Include docket number in the subject line of the message.
- FAX: 202-452-3819 or 202-452-3102.
- Mail: Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, DC 20551.

All public comments are available from the Board's web site at

[www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm](http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm) as submitted, unless modified for technical reasons. Accordingly, your comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper in Room MP-500 of the Board's Martin Building (20th and C Streets, N.W.) between 9:00 a.m. and 5:00 p.m. on weekdays.

FDIC: You may submit comments, which should refer to "Consolidated Reports of Condition and Income, 3064-0052," by any of the following methods:

- <http://www.FDIC.gov/regulations/laws/federal/notices.html>.
- E-mail: [comments@FDIC.gov](mailto:comments@FDIC.gov). Include "Consolidated Reports of Condition and Income, 3064-0052" in the subject line of the message.
- Mail: Steven F. Hanft (202-898-3907), Clearance Officer, Attn: Comments, Room MB-2088, Federal Deposit Insurance Corporation, 550 17th Street, NW., Washington, DC 20429.
- Hand Delivery: Comments may be hand delivered to the guard station at the rear of the 550 17th Street Building (located on F Street) on business days between 7 a.m. and 5 p.m.

Public Inspection: All comments received will be posted without change to <http://www.fdic.gov/regulations/laws/federal/notices.html> including any personal information provided. Comments may be inspected at the FDIC Public Information Center, Room E-1002, 3501 Fairfax Drive, Arlington, VA 22226, between 9 a.m. and 5 p.m. on business days.

OTS: You may submit comments, identified by “1550-0023 (TFR: Schedule DI Revisions),” by any of the following methods:

- Federal eRulemaking Portal: <http://www.regulations.gov>. Follow the instructions for submitting comments.
- E-mail address: [infocollection.comments@ots.treas.gov](mailto:infocollection.comments@ots.treas.gov). Please include “1550-0023 (TFR: March 2008 Revisions)” in the subject line of the message and include your name and telephone number in the message.
- Fax: (202) 906-6518.
- Mail: Information Collection Comments, Chief Counsel’s Office, Office of Thrift Supervision, 1700 G Street, NW, Washington, DC 20552, Attention: “1550-0023 (TFR: March 2008 Revisions).”
- Hand Delivery/Courier: Guard’s Desk, East Lobby Entrance, 1700 G Street, NW, from 9:00 a.m. to 4:00 p.m. on business days, Attention: Information Collection Comments, Chief Counsel’s Office, Attention: “1550-0023 (TFR: March 2008 Revisions).”

Instructions: All submissions received must include the agency name and OMB Control Number for this information collection. All comments received will be posted without change to the OTS Internet Site at

<http://www.ots.treas.gov/pagehtml.cfm?catNumber=67&an=1>, including any personal information provided.

Docket: For access to the docket to read background documents or comments received, go to <http://www.ots.treas.gov/pagehtml.cfm?catNumber=67&an=1>.

In addition, you may inspect comments at the Public Reading Room, 1700 G Street, NW., by appointment. To make an appointment for access, call (202) 906-5922, send an e-mail to [public.info@ots.treas.gov](mailto:public.info@ots.treas.gov), or send a facsimile transmission to (202) 906-7755. (Prior notice identifying the materials you will be requesting will assist us in serving you.) We schedule appointments on business days between 10:00 a.m. and 4:00 p.m. In most cases, appointments will be available the next business day following the date we receive a request.

Additionally, commenters may send a copy of their comments to the OMB desk officer for the agencies by mail to the Office of Information and Regulatory Affairs, U.S. Office of Management and Budget, New Executive Office Building, Room 10235, 725 17th Street, NW., Washington, DC 20503, or by fax to (202) 395-6974.

**FOR FURTHER INFORMATION CONTACT:** For further information about the revisions discussed in this notice, please contact any of the agency clearance officers whose names appear below. In addition, copies of the Call Report forms can be obtained at the FFIEC's web site ([http://www.ffiec.gov/ffiec\\_report\\_forms.htm](http://www.ffiec.gov/ffiec_report_forms.htm)). Copies of the TFR can be obtained from the OTS's web site (<http://www.ots.treas.gov/main.cfm?catNumber=2&catParent=0>).

OCC: Mary Gottlieb, OCC Clearance Officer, Office of the Comptroller of the Currency, 250 E Street, SW., Washington, DC 20219.

Board: Michelle E. Shore, Federal Reserve Board Clearance Officer,  
(202) 452-3829, Division of Research and Statistics, Board of Governors of the Federal Reserve System, 20th and C Streets, NW., Washington, DC 20551. Telecommunications Device for the Deaf (TDD) users may call (202) 263-4869.

FDIC: Steven F. Hanft, Paperwork Clearance Officer, (202) 898-3907, Legal Division, Federal Deposit Insurance Corporation, 550 17th Street, NW., Washington, DC 20429.

OTS: Ira L. Mills, OTS Clearance Officer, at *Ira.Mills@ots.treas.gov*, (202) 906-6531, or facsimile number (202) 906-6518, Litigation Division, Chief Counsel's Office, Office of Thrift Supervision, 1700 G Street, NW., Washington, D.C. 20552.

**SUPPLEMENTARY INFORMATION:** The agencies are proposing to revise and extend for three years the Call Report and the TFR, which are currently approved collections of information.<sup>1</sup>

1. *Report Title:* Consolidated Reports of Condition and Income (Call Report).  
*Form Number:* Call Report: FFIEC 031 (for banks with domestic and foreign offices) and FFIEC 041 (for banks with domestic offices only).  
*Frequency of Response:* Quarterly.  
*Affected Public:* Business or other for-profit.  
**OCC:**  
*OMB Number:* 1557-0081.  
*Estimated Number of Respondents:* 1,750 national banks.

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<sup>1</sup> The proposed changes to the Call Report and the TFR that are the subject of this notice would take effect March 31, 2008. The banking agencies (the OCC, the Board, and the FDIC) are also considering a separate proposal to incorporate the FDIC's Summary of Deposits report (OMB No. 3064-0061) into the Call Report effective June 30, 2008. If the FFIEC and the banking agencies approve the proposed inclusion of

*Estimated Time per Response:* 45.42 burden hours.

*Estimated Total Annual Burden:* 317,967 burden hours.

**Board:**

*OMB Number:* 7100-0036.

*Estimated Number of Respondents:* 885 state member banks.

*Estimated Time per Response:* 52.07 burden hours.

*Estimated Total Annual Burden:* 184,328 burden hours.

**FDIC:**

*OMB Number:* 3064-0052.

*Estimated Number of Respondents:* 5,218 insured state nonmember banks.

*Estimated Time per Response:* 36.16 burden hours.

*Estimated Total Annual Burden:* 754,732 burden hours.

The estimated time per response for the Call Report is an average that varies by agency because of differences in the composition of the institutions under each agency's supervision (e.g., size distribution of institutions, types of activities in which they are engaged, and existence of foreign offices). The average reporting burden for the Call Report is estimated to range from 16 to 635 hours per quarter, depending on an individual institution's circumstances.

2. *Report Title:* Thrift Financial Report (TFR).

*Form Number:* OTS 1313 (for savings associations).

*Frequency of Response:* Quarterly; Annually.

*Affected Public:* Business or other for-profit.

**OTS:**

*OMB Number:* 1550-0023.

*Estimated Number of Respondents:* 838 savings associations.

*Estimated Time per Response:* 36.50 burden hours.

*Estimated Total Annual Burden:* 193,881 burden hours.

**General Description of Reports**

These information collections are mandatory: 12 U.S.C. 161 (for national banks), 12 U.S.C. 324 (for state member banks), 12 U.S.C. 1817 (for insured state nonmember commercial and savings banks), and 12 U.S.C. 1464 (for savings associations). Except for selected data items, these information collections are not given confidential treatment.

**Abstract**

Institutions submit Call Report and TFR data to the agencies each quarter for the agencies' use in monitoring the condition, performance, and risk profile of individual institutions and the industry as a whole. Call Report and TFR data provide the most current statistical data available for evaluating institutions' corporate applications, for identifying areas of focus for both on-site and off-site examinations, and for monetary and other public policy purposes. The agencies use Call Report and TFR data in evaluating interstate merger and acquisition applications to determine, as required by law, whether the resulting institution would control more than ten percent of the total amount of deposits of insured depository institutions in the United States. Call Report and TFR data are also used to calculate all institutions' deposit insurance and Financing Corporation assessments, national banks' semiannual assessment fees, and the OTS's assessments on savings associations.



## **Current Actions**

### **I. Overview**

The four agencies are proposing to revise the Call Report and TFR instructions for reporting daily average deposit data by newly insured institutions for deposit insurance assessment purposes to conform the instructions with the FDIC's assessment regulations (12 CFR Part 327). These revisions are discussed in Section II.A of this notice.

In addition, the OCC, the Board, and the FDIC (the banking agencies) propose to implement a number of other changes to the Call Report requirements, which are discussed in detail in Sections II.B through II.F of this notice. The OTS may issue a separate notice and request for comment if it determines that the TFR should be revised to include some or all of the proposed changes to the Call Report. The Call Report changes include several related to 1-4 family residential mortgage loans such as reporting interest and fee income on and the quarterly average for such mortgages separately from income on and the quarterly average for all other real estate loans and the addition of new items for restructured troubled mortgages and mortgage loans in process of foreclosure. Call Report Schedule RC-P on closed-end 1-4 family residential mortgage banking activities, which is completed by larger banks and smaller banks with a significant level of such activities, would be expanded to include originations, purchases, and sales of open-end mortgages as well as closed-end and open-end mortgage loan repurchases and indemnifications during the quarter. The Call Report's trading account definition would be modified in response to the creation of a fair value option in generally accepted accounting principles (GAAP). Call Report Schedule RC-Q, which collects data on fair

value measurements for trading assets and liabilities and other assets and liabilities accounted for under a fair value option, and certain other schedules, including the loan schedule (Schedule RC-C), would also be revised to enhance the information available on instruments accounted for under this option. Revisions would also be made to the schedule on trading assets and liabilities (Schedule RC-D). The Call Report instructions would be clarified for reporting credit derivative data in the risk-based capital schedule (Schedule RC-R) and a corresponding change would be made to the schedule itself. The threshold for reporting significant items of other noninterest income and expense in the explanations schedule (Schedule RI-E) would also be changed. The instructions for reporting fully insured brokered deposits in Schedule RC-E, Deposit Liabilities, would be revised to conform to the instructions for reporting time deposits in this schedule.

The preceding proposed revisions to the Call Report and the TFR, which have been approved for publication by the FFIEC and are discussed in more detail below, would take effect as of March 31, 2008. The specific wording of the captions for the new or revised Call Report data items discussed in this proposal and the numbering of these data items should be regarded as preliminary.

Finally, the banking agencies request comment on a plan to discontinue the mailing of paper Call Report forms and instructions to banks, which is discussed in Section III of this notice.

*Type of Review:* Revision and extension of currently approved collections.

## **II. Discussion of Proposed Revisions**

### **A. Reporting of Data for Deposit Insurance Assessments in the Call Report and TFR by Newly Insured Institutions**

Section 327.5(a)(1) of the FDIC's assessment regulations (12 CFR 327.5(a)(1)) states that "[a]n institution that becomes newly insured after the first report of condition allowing for average daily balances shall have its assessment base determined using average daily balances." For purposes of these regulations, the term "report of condition" includes the Call Report and the TFR. Both of these reports first allowed an institution to report average daily balances for the deposit data used to determine its assessment base as of the March 31, 2007, report date. This change was introduced as of that date in conjunction with a revision and reduction in the overall reporting requirements related to deposit insurance assessments in Call Report Schedule RC-O and TFR Schedule DI that was intended to simplify regulatory reporting. As part of these revised overall reporting requirements, the agencies provided an interim period covering the March 31, 2007, through December 31, 2007, report dates during which each institution has the option to submit its Call Reports or TFRs using either the current or revised formats for reporting the data used to measure their assessment base. The revised reporting format will take effect for all institutions on March 31, 2008, at which time the current reporting format will be eliminated.

The instructions issued in March 2007 for the revised reporting format state that an institution that becomes newly insured on or after April 1, 2008, would be required to report daily average balances beginning in the first quarterly Call Report or TFR that it files. However, these instructions do not conform to the previously cited language in the

FDIC's assessments regulations with respect to their treatment of institutions that become insured between April 1, 2007, and March 31, 2008. Therefore, the agencies are revising the instructions to Call Report Schedule RC-O and TFR Schedule DI to require an institution that becomes insured after March 31, 2007, but on or before March 31, 2008, to begin reporting daily average balances in its Call Report or TFR for the March 31, 2008, report date. The requirement for an institution that becomes insured on or after April 1, 2008, to report daily average deposit data beginning in its first quarterly Call Report or TFR would remain in effect.

#### B. Call Report Revisions Related to 1-4 Family Residential Mortgage Loans

Since year-end 2000, commercial bank holdings of 1-4 family residential mortgage loans in domestic offices have increased nearly 108 percent to more than \$1.9 trillion. Nearly 98 percent of all banks hold such mortgages. 1-4 family residential mortgages now represent the single largest category of loans held by commercial banks, surpassing commercial and industrial loans as the largest category in 2002. As a percentage of total loans and leases at commercial banks, 1-4 family residential mortgages have grown from 24 percent at year-end 2000 to 32 percent at year-end 2006. Similarly, 1-4 family residential mortgages have increased from less than 15 percent of total assets to nearly 19 percent of total assets during this period. During the first quarter of 2007, bank originations and purchases of closed-end 1-4 family residential mortgages for resale exceeded \$287 billion. There has been a growing use of nontraditional residential mortgage products and an increasing number of banks offering such products. In addition, the volume of 1-4 family residential mortgage loans extended to subprime borrowers has increased. At the same time, home prices have stagnated or even declined

in many areas of the country. The higher concentration of 1-4 family residential mortgages across the industry and the changing risk profile of the loans with which banks are associated in some capacity has led the banking agencies to evaluate the information they collect about such loans in the Call Report. As a result, the banking agencies are proposing several Call Report changes that are intended to enhance their ability to monitor the nature and extent of banks' involvement with 1-4 family residential mortgage loans as originators, holders, sellers, and servicers of such loans.

#### 1. Interest and Fee Income and Quarterly Average

At present, banks report the total amount of interest and fee income on their "Loans secured by real estate" (in domestic offices) in the Call Report income statement (Schedule RI, item 1.a.(1)(a) on the FFIEC 031 and item 1.a.(1) on the FFIEC 041) and the quarterly average for these loans (in domestic offices) in the quarterly averages schedule (Schedule RC-K, item 6.a.(2) on the FFIEC 031 and item 6.b on the FFIEC 041). The banking agencies are proposing to split these existing income statement and quarterly average items into separate items for the interest and fee income on and the quarterly averages of "Loans secured by 1-4 family residential properties" and "All other loans secured by real estate."

#### 2. Restructured Mortgages

Banks currently report information on the amount of loans whose terms have been modified, because of a deterioration in the financial condition of the borrower, to provide for a reduction of either interest or principal. When such restructured loans are past due 30 days or more or are in nonaccrual status in relation to their modified terms as of the report date, they are reported in Schedule RC-N, Memorandum item 1. In contrast, when

such restructured loans are less than 30 days past due and are not otherwise in nonaccrual status, that is, when they are deemed to be in compliance with their modified terms as discussed in the Call Report instructions, banks report the amount of these loans in the Call Report loan schedule (Schedule RC-C, part I, Memorandum item 1). However, the instructions advise banks to exclude restructured loans secured by 1-4 family residential properties from these Memorandum items.

This exclusion was incorporated into the Call Report instructions because the original disclosure requirements for troubled debt restructurings under GAAP provided that creditors need not disclose information on restructured real estate loans secured by 1-4 family residential properties.<sup>2</sup> However, this exemption from disclosure under GAAP has since been eliminated.<sup>3</sup> Accordingly, the banking agencies are proposing to add a new Memorandum item to Schedule RC-C, part I, for “Loans secured by 1-4 family residential properties (in domestic offices)” that have been restructured and are in compliance with their modified terms and a new Memorandum item to Schedule RC-N, for restructured “Loans secured by 1-4 family residential properties (in domestic offices)” that are past due 30 days or more or in nonaccrual status.

### 3. Mortgages in Foreclosure

The banking agencies currently collect data on the amount of loans secured by 1-4 family residential properties that are past due 30 days or more or are in nonaccrual status (Schedule RC-N, item 1.c) and on the amount of foreclosed 1-4 family residential properties held by the bank (Schedule RC-M, item 3.b.(3)). However, regardless of

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<sup>2</sup> See Financial Accounting Standards Board Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*, footnote 25.

whether the bank owns the loans or services the loans for others, banks do not report the volume of 1-4 family residential mortgage loans that are in process of foreclosure, an indicator of potential additions to the bank's "other real estate owned" in the near term. The banking agencies propose to add two new Memorandum items for the amount of 1-4 family residential mortgage loans owned by the bank and serviced by the bank that are in foreclosure as of the quarter-end report date. Mortgage loans in foreclosure would be those for which the legal process of foreclosure has been initiated, but for which the foreclosure process has not yet been resolved at quarter-end.<sup>4</sup> These Memorandum items would be added to the Call Report loan schedule (Schedule RC-C, part I) and the servicing, securitization, and asset sale activities schedule (Schedule RC-S), with the carrying amount (before any applicable allowance for loan and leases losses) reported in the former Memorandum item and the principal amount reported in the latter Memorandum item. Reporting mortgage loans as being in process of foreclosure will not exempt those loans owned by the bank from being reported as past due or nonaccrual, as appropriate, in Call Report Schedule RC-N, and will not exempt those loans serviced by the bank that are reported in Schedule RC-S, item 1, from being reported as past due, as appropriate, in that schedule.

#### 4. Open-end 1-4 Family Residential Mortgage Banking Activities

Banks with \$1 billion or more in total assets and smaller banks that meet certain criteria currently provide data on originations, purchases, and sales of closed-end 1-4

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<sup>3</sup> See Financial Accounting Standards Board Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, paragraph 22(f).

<sup>4</sup> For banks that participate in the Mortgage Bankers Association's (MBA) National Delinquency Survey, the time at which mortgage loans would become reportable as being in process of foreclosure for Call Report purposes would be the same time at which mortgage loans become reportable as being in

family residential mortgage loans during the quarter arising from their mortgage banking activities in domestic offices in Call Report Schedule RC-P. These banks also report the amount of closed-end 1-4 family residential mortgage loans held for sale at quarter-end as well as the noninterest income for the quarter from the sale, securitization, and servicing of these mortgage loans. Data (other than for noninterest income) is provided separately for first lien and junior lien mortgages in Schedule RC-P. About 650 banks complete Schedule RC-P, less than 300 of which have total assets of less than \$1 billion. However, this information does not provide a complete picture of banks' mortgage banking activities since it excludes open-end 1-4 family residential mortgages extended under lines of credit. From year-end 2001 to year-end 2006, bank holdings of 1-4 family residential mortgage loans extended under lines of credit more than tripled to nearly \$470 billion. Accordingly, the banking agencies are proposing to expand the scope of Schedule RC-P to include separate items for originations, purchases, and sales of open-end 1-4 family residential mortgages during the quarter; the amount of such mortgages held for sale at quarter-end; and noninterest income for the quarter from the sale, securitization, and servicing of open-end residential mortgages. When reporting the originations, purchases, sales, and mortgages held for sale, banks would report both the total commitment under the line of credit and the principal amount funded under the line. For banks with less than \$1 billion in total assets, the criteria used to determine whether Schedule RC-P must be completed would be modified to include both closed-end and open-end 1-4 family residential mortgage bank activities.

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“foreclosure inventory” for MBA survey purposes (although the dollar amount of such loans would be reported in the Call Report while the number of such loans are reported for MBA survey purposes).



## 5. Mortgage Repurchases and Indemnifications

As a result of its 1-4 family residential mortgage banking activities, a bank may be obligated to repurchase mortgage loans that it has sold or otherwise indemnify the loan purchaser against loss because of borrower defaults, loan defects, other breaches of representations and warranties, or for other reasons, thereby exposing the bank to additional risk. Such information is not currently captured in Call Report Schedule RC-P. Therefore, the banking agencies propose to add four new items to Schedule RC-P to collect data on mortgage loan repurchases and indemnifications during the quarter. For both closed-end first lien and closed-end junior lien 1-4 family residential mortgages, banks would report the principal amount of mortgages repurchased or indemnified. For open-end 1-4 family residential mortgages, banks would report both the total commitment under the line of credit and the principal amount funded under the line for mortgages repurchased or indemnified.

### C. Call Report Data on Trading Assets and Liabilities and Other Assets and Liabilities Accounted for Under a Fair Value Option

#### 1. Reporting of Assets and Liabilities under the Fair Value Option as Trading

On February 15, 2007, the Financial Accounting Standards Board (FASB) issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159), which is effective for fiscal years beginning after November 15, 2007. Earlier adoption of FAS 159 was permitted as of the beginning of an earlier fiscal year, provided the bank (i) also adopts all of the requirements of FASB Statement No. 157, *Fair Value Measurements* (FAS 157) at the early adoption date of FAS 159; (ii) has not yet issued a financial statement or submitted Call Report data for any period of that fiscal

year; and (iii) satisfies certain other conditions. Thus, a bank with a calendar year fiscal year may have voluntarily adopted FAS 159 as of January 1, 2007. Changes in the fair value of financial assets and liabilities to which the fair value option is applied are reported in current earnings as is currently the case for trading assets and liabilities. Since the fair value option standard allows a bank to elect fair value measurement through earnings for financial assets and financial liabilities, the banking agencies understand that some institutions would like to reclassify certain loans elected to be accounted for under the fair value option as trading assets. The Call Report instructions currently do not allow loans held for sale to be reported as trading assets.

Under FAS 159, all securities within the scope of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (FAS 115), that a bank has elected to report at fair value under a fair value option should be classified as trading securities. Recognizing the provisions of FAS 159, the banking agencies are proposing the following clarification to the Call Report instructions, including the Call Report Glossary entry for “Trading Account.” Banks may classify assets (other than securities within the scope of FAS 115 for which a fair value option is elected) and liabilities as trading if the bank applies fair value accounting, with changes in fair value reported in current earnings, and manages these assets and liabilities as trading positions, subject to the controls and applicable regulatory guidance related to trading activities. For example, a bank would generally not classify a loan to which it has applied the fair value option as a trading asset unless the bank holds the loan, which it manages as a trading position, for one of the following purposes: (1) for market making activities, including such activities

as accumulating loans for sale or securitization; (2) to benefit from actual or expected price movements; or (3) to lock in arbitrage profits.

## 2. Revision of Certain Fair Value Measurement and Fair Value Option Information in the Call Report

Effective for the March 31, 2007, report date, the banking agencies started collecting information on certain assets and liabilities measured at fair value on Call Report Schedule RC-Q, Financial Assets and Liabilities Measured at Fair Value.

Schedule RC-Q was intended to be consistent with the disclosure and other requirements contained in FAS 157 and FAS 159. Based on the banking agencies' review of initial industry practice and inquiries from banks, the agencies have determined that industry practice for preparing and reporting FAS 157 disclosures has evolved differently than the process for the information collected on Schedule RC-Q. This divergence has resulted in unnecessary burden and less transparency for the affected banks in two material respects.

First, Schedule RC-Q does not allow banks to separately identify each of the three levels of fair value measurements prescribed by FAS 157. The banking agencies included Level 1 fair value measurements in the total fair value amount in column A of Schedule RC-Q as a means of minimizing reporting burden. However, the omission of a separate column on Schedule RC-Q for Level 1 fair value measurements has increased the time bank managements spend preparing and reviewing Schedule RC-Q because the fair value disclosures on Schedule RC-Q differ from those in the banks' other financial statements. Second, Schedule RC-Q does not allow banks to separately identify any amounts by which the gross fair values of assets and liabilities reported for Level 2 and 3 fair value measurements included in columns B and C have been offset (netted) in the

determination of the total fair value reported on the Call Report balance sheet (Schedule RC), which is disclosed in column A of Schedule RC-Q. Based on a review of industry practice, these disclosures are commonly made in the banks' other financial statements.

To reduce confusion related to the differences in industry practice and the Call Report, the banking agencies propose to add two columns to Schedule RC-Q to allow banks to report any netting adjustments and Level 1 fair value measurements separately in a manner consistent with industry practice. The new columns would be captioned column B, Amounts Netted in the Determination of Total Fair Value Reported on Schedule RC, and column C, Level 1 Fair Value Measurements. Existing column B, Level 2 Fair Value Measurements, and column C, Level 3 Fair Value Measurements, of Schedule RC-Q would be recaptioned as columns D and E, respectively. Column A would remain unchanged.

The banking agencies have also given further consideration to the information that will be necessary to effectively assess the safety and soundness of banks that utilize the fair value option pursuant to FAS 159. Based on this assessment, the banking agencies propose to amend certain other Call Report schedules to improve the agencies' ability to make comparisons among entities that elect a fair value option and those that do not. The primary focus of these proposed changes is to enhance the information provided by banks that elect the fair value option for loans. The proposed changes are based on the principal objectives for disclosures and the required disclosures in FAS 159, which were intended to provide "information to enable users to understand the differences between

fair value and contractual cash flows” and to provide information “that would have been disclosed if the fair value option had not been elected.”

Specifically, the banking agencies propose to add items to Schedule RC-C, part I, Loans and Leases, to collect data on the loans reported in this schedule that are measured at fair value under a fair value option: (1) the fair value of such loans measured by major loan category, (2) the unpaid principal balance of such loans by major loan category, and (3) the aggregate amount of the difference between the fair value and the unpaid principal balance of such loans that is attributable (a) to changes in the credit risk of the loan since its origination and (b) to all other factors. Comments are invited on: (1) the availability of information necessary to separately report the aggregate difference between fair value and the unpaid principal that is attributable to changes in credit risk since origination, (2) the reliability of estimating the amount attributable to changes in credit risk since origination, and (3) ways to minimize the burden of collecting information regarding the effect of changes in credit risk on the carrying amount of loans measured at fair value.

Because Schedule RC-C, part I, provides data on loans held for investment and for sale, the banking agencies propose to add the same items to Schedule RC-D, Trading Assets and Liabilities, for loans measured at fair value under a fair value option that are designated as held for trading. The banking agencies also propose to add a new item to Schedule RC-D for “Other trading liabilities” in recognition of a bank’s ability to elect to measure certain liabilities at fair value in accordance with FAS 159 and designate them as held for trading.

The banking agencies propose to add two items to Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, to collect data on the fair value and unpaid

principal balance of loans measured at fair value under a fair value option that are past due or in nonaccrual status. The items would follow the existing three column breakdown on Schedule RC-N that banks utilize to report all other past due and nonaccrual loans. Since trading assets are not currently reported on Schedule RC-N, the banking agencies propose to add similar items to Schedule RC-D to collect the total fair value and unpaid principal balance of loans 90 days or more past due that are classified as trading. Finally, the banking agencies propose to add items to Schedule RI, Income Statement, to collect information on: (1) net gains (losses) recognized in earnings on assets that are reported at fair value under a fair value option; (2) estimated net gains (losses) on loans attributable to changes in instrument-specific credit risk; (3) net gains (losses) recognized in earnings on liabilities that are reported at fair value under a fair value option; (4) estimated net gains (losses) on liabilities attributable to changes in the instrument-specific credit risk.

### 3. Other Revisions to the Call Report Information on Trading Assets and Liabilities

Since 2000, the total trading assets reported by banks has increased approximately 124 percent to \$682 billion or 7 percent of total industry assets as of March 31, 2007. In terms of concentrations, approximately 64 percent of total trading assets now are either reported in the category of “Trading assets held in foreign offices” (approximately 53 percent of total trading assets) or “Other trading assets in domestic offices” (approximately 11 percent of total trading assets). Schedule RC-D, Trading Assets and Liabilities, currently does not provide any specific detail on the trading assets held in foreign offices or other trading assets in domestic offices. This limits the banking agencies’ ability to assess bank exposures to market, liquidity, credit, operational, and

other risks posed by these assets. To appropriately assess the safety and soundness of banks with these exposures and banks with significant concentrations in trading assets, the banking agencies propose three revisions to Schedule RC-D.

First, the banking agencies propose to eliminate the single line item for trading assets in foreign offices on the FFIEC 031 Call Report form and revise the schedule to include separate columns for the consolidated bank and for domestic offices. This will provide detail on the assets in foreign offices in a manner consistent with disclosures about trading assets throughout the bank. Second, the banking agencies propose to change the reporting threshold for Schedule RC-D. At present, a bank must complete Schedule RC-D each quarter during a calendar year if the bank reported a quarterly average for trading assets of \$2 million or more in Schedule RC-K, item 7, for any quarter of the preceding calendar year.<sup>5</sup> As proposed, Schedule RC-D would be completed in any quarter when the quarterly average for trading assets was \$2 million or more in any of the four preceding quarters.<sup>6</sup> This change will enable the banking agencies to more quickly and readily monitor the composition and risk exposures of the trading accounts of banks that become more significantly involved in trading activities. During 2006, 118 banks reported average trading assets of \$2 million or more in any quarter of the year.

Third, the banking agencies propose to require banks with average trading assets of \$1 billion or more in any of the four preceding quarters to provide additional detail on

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<sup>5</sup> This same reporting threshold applies to Schedule RI, Memorandum item 8, in which banks report a breakdown of trading revenue by risk exposure, but the banking agencies are not proposing to change the threshold for this Memorandum item.

<sup>6</sup> For example, if a bank reported a quarterly average for trading assets of \$2 million or more for the first time in its March 31, 2008, Call Report, it would begin to complete Schedule RC-D in its June 30, 2008,

trading assets and liabilities currently included in the “other” trading asset and liability categories. These banks would provide additional breakouts for asset-backed securities by major category, collateralized debt obligations (both synthetic and non-synthetic), retained interests in securitizations, equity securities (both with and without readily determinable fair values), and loans held pending securitization. In addition, these banks would be required to provide a description of and report the fair value of any type of trading asset or liability in the “Other trading assets” and “Other trading liabilities” categories that is greater than \$25,000 and exceeds 25 percent of the amount reported in that trading category. This threshold is comparable to the threshold that all banks use for providing additional detail on other assets and other liabilities reported in Schedules RC-F and RC-G, respectively.

#### D. Reporting Credit Derivative Data for Risk-based Capital Purposes in the Call Report

Approximately 50 banks report that they have entered into credit derivative contracts either as a guarantor or beneficiary. For credit derivative contracts that are covered by the banking agencies’ risk-based capital standards, the Call Report instructions require banks to report these credit derivatives in item 52, “All other off-balance sheet liabilities,” of Schedule RC-R, Regulatory Capital, unless the credit derivatives represent recourse arrangements or direct credit substitutes, which are reported in one of the preceding items in the Derivatives and Off-Balance Sheet Items section of the schedule. This reporting approach was developed to enable banks that sold credit protection and held the credit derivative to apply a 100 percent risk weight to the notional amount consistent with the risk-based capital treatment of standby letters of

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Call Report. At present, the bank would not begin to complete Schedule RC-D until its March 31, 2009, Call Report.



credit and guarantees. At present, Schedule RC-R, item 54, “Derivative contracts,” specifically excludes credit derivatives and does not include a 100 percent risk weight column because the maximum risk weight on the counterparty credit risk charge for other types of derivatives is 50 percent.

However, this reporting approach does not consider that some credit derivative positions are subject to a counterparty credit risk charge, which is calculated for other derivative positions in item 54, even if the credit derivatives are held by a bank that is subject to the market risk capital rules. The banking agencies also understand that credit derivatives often are included in bilateral netting arrangements. When derivatives are subject to such an arrangement, the instructions to Schedule RC-R, item 54, permit a bank to report a net amount representing its exposure to a counterparty for all derivative transactions under the bilateral netting arrangement with that counterparty. However, by instructing a bank not to report its counterparty credit risk exposure for credit derivatives in Schedule RC-R, item 54, the banking agencies are, in effect, requiring the bank to separate its exposures resulting from credit derivatives from its net exposure to a counterparty. As a consequence, the bank is unable to recognize the netting benefit in its risk-based capital calculation.

The banking agencies are proposing to modify the Call Report instructions for Schedule RC-R to allow the reporting of the credit equivalent amount of credit derivatives subject to the counterparty credit risk charge in item 54 of the schedule. In addition, the banking agencies would extend the existing 100 percent risk weight column in Schedule RC-R to item 54, “Derivative contracts.”

E. Revision of Reporting Threshold for Other Noninterest Income and Other Noninterest Expense in the Call Report

In 2001, the banking agencies changed the threshold for reporting detail on the components of “Other noninterest income,” included in Schedule RI, item 5.1, and “Other noninterest expense,” reported in Schedule RI, item 7.d, to require banks separately to disclose on Schedule RI-E, Explanations, the description and amount of any component included in other noninterest income and other noninterest expense that exceeded 1 percent of the sum of interest income and noninterest income. Since that time, the banking agencies have monitored bank disclosures of the types of noninterest income and noninterest expenses in excess of this threshold to assess the safety and soundness considerations associated with the changing sources of these income and expense streams. Based on this review, the banking agencies have determined that the current threshold does not provide sufficient information on the sources of bank noninterest income and noninterest expenses to adequately address their safety and soundness concerns. As a result, the banking agencies are proposing to change the threshold for reporting detail information on the components of other noninterest income and other noninterest expense.

Prior to 2001, banks were required to separately disclose the description and amount of any item included in other noninterest income that exceeded 10 percent of other noninterest income and any item included in other noninterest expense that exceeded 10 percent of other noninterest expense. The banking agencies have determined that thresholds based on a percentage of other noninterest income and other noninterest expense are more relevant criteria for determining when a bank should

provide more detail. The banking agencies propose to change the threshold to require banks to separately disclose the description and amount of any item included in other noninterest income that exceeds 3 percent of other noninterest income and any item included in other noninterest expense that exceeds 3 percent of other noninterest expense. This percentage is intended to initially result in a reporting threshold that is comparable to the current 1 percent of interest income plus noninterest income threshold. It is also expected to provide more relevant disclosures than the current threshold as the amounts reported in noninterest income and noninterest expense change over time.

In addition, based on a review of recent bank disclosures of components of other noninterest income and other noninterest expense reported in Schedule RI-E, the banking agencies plan to add one new preprinted caption for other noninterest income and four new preprinted captions for other noninterest expense to help banks comply with the disclosure requirements. As with the existing preprinted captions for other noninterest income and other noninterest expense, banks are only required to use these descriptions and provide the amounts for these components when the amounts included in other noninterest income or other noninterest expense exceed the reporting threshold. The new preprinted other noninterest income caption is bank card/credit card interchange fees. The new preprinted noninterest expense captions are: (1) accounting and auditing expenses, (2) consulting and advisory expenses, (3) automated teller machine (ATM) and interchange expenses, and (4) telecommunications expenses.

#### F. Reporting Brokered Time Deposits Participated Out by the Broker in the Call Report

The banking agencies revised the instructions for Schedule RC-E, Memorandum items 2.b, “Total time deposits of less than \$100,000,” and 2.c, “Total time

deposits of \$100,000 or more,” in March 2007. This was done so that brokered time deposits issued in denominations of \$100,000 or more that are participated out by the broker in shares of less than \$100,000 would be reported in the former rather than the latter Memorandum item. However, the banking agencies did not make a conforming instructional revision to Schedule RC-E, Memorandum items 1.c.(1) and 1.c.(2), on fully insured brokered deposits. This means that these participated brokered time deposits continue to be reported as brokered deposits of greater than \$100,000 rather than brokered deposits of less than \$100,000. Consistent reporting of these brokered time deposits across these Schedule RC-E Memorandum items is needed for purposes of measuring a bank’s non-core liabilities. Therefore, the banking agencies are proposing to revise Schedule RC-E, Memorandum items 1.c.(1) and 1.c.(2), so that brokered time deposits issued in denominations of \$100,000 or more that are participated out by the broker in shares of less than \$100,000 are reported in Memorandum item 1.c.(1) as fully insured brokered deposits of less than \$100,000.

### **III. Discontinuance of Mailing of Call Report Forms and Instructions**

The banking agencies are planning to discontinue the mailing of report forms and instructions for the FFIEC 031 and FFIEC 041. In March 2006, the banking agencies advised banks that beginning in June 2006 they would no longer mail sample Call Report forms to banks each quarter. At that time, the agencies stated that they planned to mail sample forms to banks only in those quarters when significant revisions are made to the report forms. The banking agencies have continued to mail updates to the Call Report instruction book in those quarters when such updates have been issued. Based on their current practice, the banking agencies’ next mailing would take place in March 2008.

The Call Report forms and their instructions are available on the FFIEC's Web site ([http://www.ffiec.gov/ffiec\\_report\\_forms.htm](http://www.ffiec.gov/ffiec_report_forms.htm)) and the FDIC's Web site (<http://www.fdic.gov/regulations/resources/call/index.html>) each quarter before any mailings of the paper forms and instructions are completed. A paper copy of the report forms and instructions can be printed from the Web sites. In addition, banks that use Call Report software generally can print paper copies of blank forms from their software. The banking agencies request comment on this issue.

#### **IV. Request for Comment**

Public comment is requested on all aspects of this joint notice. Comments are invited on:

- (a) Whether the proposed revisions to the Call Report and TFR collections of information are necessary for the proper performance of the agencies' functions, including whether the information has practical utility;
- (b) The accuracy of the agencies' estimates of the burden of the information collections as they are proposed to be revised, including the validity of the methodology and assumptions used;
- (c) Ways to enhance the quality, utility, and clarity of the information to be collected;
- (d) Ways to minimize the burden of information collections on respondents, including through the use of automated collection techniques or other forms of information technology; and
- (e) Estimates of capital or start up costs and costs of operation, maintenance, and purchase of services to provide information.

Comments submitted in response to this joint notice will be shared among the agencies and will be summarized or included in the agencies' requests for OMB approval. All comments will become a matter of public record.

Dated: 9-4-07

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(signed)

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**Stuart E. Feldstein,**

*Assistant Director, Legislative and Regulatory Activities Division,  
Office of the Comptroller of the Currency.*

Board of Governors of the Federal Reserve System, September 5, 2007.

(signed)

Jennifer J. Johnson  
Secretary of the Board.

Dated at Washington, D.C., this 31<sup>st</sup> day of August, 2007.

FEDERAL DEPOSIT INSURANCE CORPORATION

(signed)

Robert E. Feldman  
Executive Secretary

Dated: August 30, 2007

(signed)

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**Deborah Dakin,**

*Senior Deputy Chief Counsel,  
Regulations and Legislation Division,  
Office of Thrift Supervision.*